



Transparency in Health Care

Lessons from Other States

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THE PROBLEM

The dramatic increase in the cost of private health insurance over the past few years, both nationally and in Rhode Island, has been well documented. In response to these escalating costs, many employers are beginning to transfer cost increases to the consumer – in the form of higher monthly premiums and plan designs with significant cost sharing.

In Rhode Island, this transition has been substantial: In 1999, approximately 61 percent of Rhode Island employers paid the full premium for individual coverage. By 2005, this number had dropped to only 27 percent.¹ And the shift to plan designs with higher cost sharing has also been significant – in 2005 *almost half* (44%) of all subscribers in the Rhode Island small group market were enrolled in plan designs with some form of deductible or coinsurance at the point of service.² These new high deductible, high cost sharing plan designs place significant responsibility for cost effective decision-making into the hands of the consumer. However, today's consumers are too often ill-prepared for such decision-making – they lack the necessary tools and information to support cost-effective choices.

EXAMPLE

A recent national poll found that the vast majority of Americans (84%) would like health care costs published. And 79 percent of respondents said that they would likely use that data to shop for the best price.³ Using an example based on Rhode Island data, consider a fictitious Mr. Smith. Mr. Smith needs to get an MRI. He has a high deductible HSA, with a \$2,000 deductible, much of which he has not yet spent – so he will likely have to pay for 100% of this service himself. Without access to cost information by facility, he would simply go to a convenient, local facility – and might pay up to \$1,300 for this single test.⁴ If he had access to health care cost information on the web, he could look up the cost of this service across different facilities in Rhode Island, and choose to go to one of the facilities that charges only \$450 – a very meaningful difference for Mr. Smith.⁵

PRESSURE FOR REFORM

Pressure for increased health care transparency is increasing across the country, from varied opinion leaders, including academics, politicians and health care executives alike. President Bush has called on the Federal Government to lead the way toward increased transparency, with Medicare prices planned to be posted on the internet by June 1, 2006. The Commonwealth Fund's recent position paper on transparency was headlined "Transparency in Health Care: The Time Has Come", and even the American Hospital Association, which has been traditionally more skeptical of the need for transparency in health care has recently committed to working with legislators to foster more "knowledgeable and empowered consumers", and has outlined a proposal to make hospital prices more transparent.⁶

Most opinion leaders seem to agree that more transparency will help consumers to navigate the health care system, and create opportunities for more cost-effective decision-making; however, some experts caution that transparency will not alone solve the problem of escalating costs.

Proponents of increased transparency highlight the need for consumer “shopping” for health care, much like other consumer goods:

- **President Bush** has been encouraging private health insurers and hospitals to disclose health care cost and quality information. *“I believe the best health-care system is one in which there is a direct connection between provider and customer...transparency in the pricing system...”*⁷
- **Scott Atlas, from the Hoover Institute and Stanford School of Medicine** wrote: *“The idea of informed consumers knowing prices and controlling their health care dollar is an extremely powerful one. Ultimately, no commodity, no service industry, sells to consumers without openly disclosing prices...The role of government should be to make transparent the prices of these procedures...patients would greatly benefit if the government required that prices be posted for common medical procedures before care is administered...”*
- **Charlie Baker, CEO of Harvard Pilgrim Health Care**, said: *“As health care costs go up, and as people are expected to incur a greater share of the cost of their premiums or services, this kind of information would be useful to them...”*⁸
- **Mike McCallister, CEO of Humana**, said: *“There’s a lot of cost-shifting going on, and individual consumers are having more expense come their way in the employee environment. At least financially, they have a reason to pay attention.”*⁹

Other opinion leaders are ‘cautiously supportive,’ emphasizing that health care transparency will help, but will not alone solve the problem of escalating costs:

- **Paul Ginsburg, Ph.D., President, Center for Studying Health System Change**, wrote: *“Fostering consumer price shopping for health services does have potential for containing costs without sacrificing quality – but some are overselling the magnitude of this potential.”*
- **Karen Davis, Ph.D., President, The Commonwealth Fund**, wrote: *“More and better information on the costs and quality of health services could improve the system – by enabling providers to benchmark their performance against their peers, allowing private insurers and public programs to reward quality and efficiency, and helping patients make informed choices about their care.”*¹⁰
- **Columnist David Wessel, from the Wall Street Journal**, wrote: *“Is moving to “empower the individual” appropriate to health care? In part, it is. Doctors, hospitals and insurers need a nudge to think of us more as customers than they sometimes do...A bigger problem is that too many healthy (for now) Americans go without preventive care, and too many chronically ill Americans don’t get care that would avoid costly, painful complications later...”*

LESSONS FROM OTHER STATES

Many states have already passed or are in the process of drafting legislation in an effort to increase price and quality transparency in health care. In drafting this legislation, states have wrestled with three key questions:

1. How to Measure Cost: Provider Charges vs. Negotiated Rates

Legislators in many states have recently started – or are considering – requiring hospitals to provide the public with “list price” information for at least some common procedures:

- Florida: The Florida Healthstat web site reports risk adjusted average charges, average length of stay, readmission rates, mortality rates and complication/infection rates by hospital and by procedure.¹¹
- Texas: The Texas Business Group on Health’s web site reports information on patient outcomes, lengths of stay, processes that reduce medical errors and average retail costs for heart surgery, heart attack care and childbirth.¹²
- California: A law that took effect last year requires hospitals to make public their entire charge description masters.¹³
- Wisconsin: The Wisconsin Hospital Association Information Center launched a web site in February that provides both list price and quality information on that state’s hospitals.
- Kentucky and Utah: The Kentucky Hospital Association web site lists hospital price information by facility and procedure, compared to statewide averages. Utah is currently considering legislation based on the Kentucky model.¹⁴

The problem with this information is that hospital charges have little relevance for people with insurance, because their health plans typically negotiate reduced rates and the patients pay only part of that cost. Thus, while most agree that this type of information “is clearly progress,” and it “opens the door to a better understanding of what’s involved,” **meaningful price comparisons for insured consumers must be based on negotiated rates to insurers.**

Recognizing this, some states are working to provide cost information based on negotiated insurer rates – rather than charges:

- Massachusetts recently passed a landmark health care reform bill, which requires insurers to provide negotiated provider rate information to the Health Care Quality and Cost Council, who will report this information *by* provider *across* all insurers. In this way it will protect the confidentiality of negotiated provider rates between insurers and providers, but still provide relevant information to allow consumers to compare costs.¹⁵

2. Who should Gather and Disseminate Information

We found three different models that have been implemented nationally in order to provide price transparency to consumers:

- State or public agency gathers and disseminates data
In many instances, the information is gathered and disseminated by a state agency or non-profit organization. Massachusetts has established the Health Care Quality and Cost Council, an entity which is within, but not subject to the control of the Executive Office of Health and Human Services. Texas provides this information through the Texas Health care Information Collection, which is part of the Texas Department of State Health Services. Florida also provides this information through a government web site, myhealthstat.com.
- Hospitals or providers required to report information
Some states have required that the hospital or hospital association provide the required cost information. California, Wisconsin, Kentucky and Utah have all taken this approach. Unfortunately, this approach is typically based on charges, which, as shown above, is not a meaningful cost indicator for insured consumers.
- Insurers provide information
Insurer web sites appear to be a logical place to post price information for two primary reasons. First, insurers have the data needed to create this information – insurer claims data would likely be the most appropriate basis for measuring cost. And second, most insurers are already posting much of this information for their providers. Restructuring this data for members, for select procedures, appears to be an appropriate extension of this existing capability.
- Many insurers have begun to provide cost and quality information by provider and facility – independent of any state action. These efforts are detailed below.

3. **Incorporating Quality**

Efforts to provide consumers with meaningful information on the quality of providers or facilities is less developed. Most states do not appear to have moved beyond very basic measures for quality, such as frequency, mortality rates, etc. And most states appear to focus entirely on inpatient – we found little evidence of quality reporting by facility or provider for outpatient-based care.

- States that have required hospital reporting of charges, have often included quality information in this disclosure. However, the information available has been relatively limited.
- Massachusetts' health care reform legislation includes specific requirements for cost information to be provided by January 1, 2007. However, the quality information requirements are much less specific – legislation simply suggests a process, committee structure, and funding mechanism to support future quality measures by provider and facility.

SOME PRIVATE INSURERS ARE LEADING THE WAY

Many private insurers have expressed a commitment to increased transparency in health care – even without government intervention. These insurers have independently begun to provide information on their negotiated rates for select procedures in select markets:

- Aetna is the first major health insurer to publicly disclose the fees it negotiates with physicians. The company has made available online **the exact prices it has negotiated with Cincinnati-area doctors for hundreds of medical procedures and tests**. Some say the move is likely to push more insurers to follow suit.
- Humana provides similar price information in select markets, negotiated fees by procedure and facility – however, they have taken steps to protect/keep confidential individual provider deals. As such, in some markets, where there is a publicly available all-payor database, this information appears to be based on an average across all payors. In other markets, Humana reports cost “ranges”, which combine facility and physician fees by episode of care.
- United has also taken a leadership role in the transparency debate, providing cost information for a wide range of procedures. However, this information is provided on average by zip code – it does not allow for cost comparisons across different facilities in a given area.
- BCBS of California provides a ‘Zagat-like’ scoring system, which ranks facilities by cost – one to four “dollar signs” (\$ to \$\$\$\$), depending upon their cost for a particular procedure.

CONCLUSIONS AND NEXT STEPS

As the Commonwealth Fund suggested in their recent position paper, “the time has come” for transparency in health care. Controlling the rising cost of health care *requires* cost effective, consumer decision-making – and consumers cannot make cost effective choices without better information on the cost of care. Will this alone solve the “cost problem?” – no, of course not. But it is a critical component of a more comprehensive reform effort.

Many states have begun to address transparency concerns with efforts to provide consumers with hospital “list prices” or charges. Unfortunately, while this is a step in the right direction, hospital list prices have little relevance for people with insurance, because their health plans typically negotiate reduced rates and the patients pay only part of that cost. Meaningful price comparisons for insured consumers must be based on negotiated rates to insurers – not list prices.

Private insurers appear to be leading the way in providing meaningful price transparency to their customers. Aetna and Humana both provide consumers with negotiated rates by procedure and facility – exactly the information that a price sensitive consumer would need to assist in making cost-effective decisions about their care. And in Rhode Island, both BCBSRI and United already provide this type of information to their providers. In addition, United already provides Rhode Island consumers with average cost information by procedure. However, in order for this information to encourage cost effective decision-making, it needs to go one step further, and allow consumers to compare costs *by provider, for a given procedure*. Given the strong starting point for Rhode Island health plans, encouraging and, if necessary, requiring health plans to provide this information to their consumers appears to be a logical next step.

ENDNOTES

¹ JSI, Research and Training Institute Rhode Island Employers Survey, 2005. Rhode Island Department of Health 1999 Survey of Rhode Island Employer son Health Insurance Coverage

² Rhode Island Small Group Market Conduct Study, 2005. Includes data from BCBSRI and United for all employers with under 50 employees.

³ Poll results released on May 8, 2006 by the Council for Affordable Health Insurance. Poll was performed by Zogby International.

⁴ Pricing information based on average Medicaid payment per MRI by facility, from Rhode Island Medicaid Fee-For-Service claims paid. Data includes claims incurred in 2005, paid through 10/05. MRI = Magnetic resonance (e.g. Proton) Imaging. Procedure code 70553. Data includes facility fees and physician fees.

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⁶ Modern Healthcare Alert, May 1, 2006

⁷ WSJ article, 1/29/06, cites a speech by President Bush "earlier this month"

⁸ Kaiser Daily Health Policy Report, Tuesday, March 14, 2006

⁹ Wall Street Journal, Tuesday, January 10, 2006

¹⁰ www.cmwf.org, "From the President: Transparency in Health Care: The Time Has Come, April 2006

¹¹ From the web site: Floridahealthstat.com

¹² Dallas-Forth Worth Star Telegram, March 24, 2006

¹³ From website: HealthLeadersMedia.com, Nov. 2005

¹⁴ Desert Morning News, Thursday, April 20, 2006

¹⁵ Tennessee has taken a slightly different approach, requiring that all small employers have access to the same provider discounted fees as are incorporated into the state account arrangement. In this way, it does not encourage price shopping by consumers, but does put pressure on providers to reduce fees.